

Interstate Telecommunications Sold to Businesses

TV & Telecom tax notice

Effective January 1, 2000, Public Chapter 413 repeals the exemption for interstate WATS and deletes the definition of WATS from the statutes. Public Chapter 413 (Tenn. Code Ann. Section 67-6-221) provides that all interstate telecommunication services sold to businesses are subject to a reduced state tax rate of 3.5% and are exempt from local tax.

Interstate telecommunications are defined as those telecommunications which originate or terminate outside of Tennessee. Tenn. Code Ann. Section 67-6-102(15). Interstate telecommunications which are billed or charged to a service address in this state are subject to sales tax. Tenn. Code Ann. Section 67-6-102(24)(F)(iii).

All types of telecommunication services, such as Internet access, paging, facsimile, and cellular services, which are interstate services and sold to a business, are subject to the reduced state rate and are exempt from local tax. (Under the "grandfather" provision of the Federal Internet Tax Freedom Act, Tennessee is not prohibited from imposing sales tax on Internet access.)

The public chapter made no changes to the taxation of interstate telecommunication services sold to persons other than businesses, which continue to be subject to the state tax rate of 6% and the local rate of 1.5%.

Tenn. Code Ann. Section 67-6-205(a) and 67-6-702(g).

Public chapter 413 exempts from the sales tax interstate telecommunication services utilized in the operation of a call center. Tenn. Code Ann. Section 67-6-356. See December 1999 notice on the department's Web site regarding interstate telecommunications sold to qualified call centers.

No changes were made to the taxation of intrastate telecommunications. Intrastate telecommunication services are subject to the full state rate and applicable local rate of sales tax.

In order to facilitate the reporting and remittance of state and local sales tax on telecommunication services, the department is providing a new sales and use tax return form (TV programming providers will also use the new form.) Both sales and use tax must be reported on the new return. The [return and instructions](#) are included with this notification.

Have questions or comments? Please let us know. [Contact us.](#)

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